Energy Update

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FERC orders wholesalers to refund $69 million

Federal regulators ordered power wholesalers Friday to refund $69 million in excessive charges to California utilities, hundreds of millions less than state officials are seeking.

The Federal Energy Regulatory Commission found that January electricity prices wholesalers charged the California Independent System Operator, which oversees the state grid, and the Power Exchange, the state's power trading center, exceeded "just and reasonable" amounts.

The ISO earlier this month told FERC that suppliers should have to refund roughly $550 million they overcharged in December and January for the last-minute power it buys for utilities to fill gaps in the grid and avoid blackouts.

FERC said it looked only at January and would address December in a later order.

In addition, it said it could only address potentially excessive charges by private generators, not public utilities that sold to the grid and the exchange during that period. The public utilities accounted for $170 million of the overcharging alleged by the ISO.

FERC's order requires refunds from more than a dozen major power suppliers, including Duke Energy, Dynegy, Reliant, Williams, Mirant, and Sempra, which is the parent of the San Diego Gas & Electric Co.

California has been reeling under soaring wholesale power prices—driven in part by rising natural gas costs--and a tight power supply for months.

The ISO report to FERC said electricity wholesalers overcharged during the period, even when high natural gas prices and other problems are taken into account.

Free light bulbs

Lured by a promise of free lightbulbs, thousands of San Franciscans descended on City Hall yesterday and crowded their way into a carnival-like Energy Fair, where they eagerly absorbed dry-as-dust conservation pitches. While energy charts and displays of lightbulbs, weatherized windows and hulking white appliances would not seem like natural ingredients for a boisterous, feel-good event, that's what happened. The Energy Efficiency Fair glowed with a remarkably down-home feeling, much like a rural county fair featuring ladies' jams and quilts that somehow got transported to San Francisco's elegant City Hall rotunda.

Soaring Electric Use More Fiction Than Fact

The electricity industry has painted the summer of 2000 as the equivalent of a 100-year storm in meteorology -- an event so powerful and unexpected that the existing infrastructure was devastated by its force.

The statistics show that 2000, taken in total, was nothing of the sort. Moreover, two independent state agencies' assessments of California's power plant capacity appear to show that the growth should have been accommodated.

The companies have defended their practice of increasingly taking power- generation plants out of service by arguing that heavy demand and consequent plant usage necessitated major, time-consuming repairs.

"The claims that demand growth is rampant and that it was totally unexpected and due to the Internet economy, to Silicon Valley, or server farms, or people recharging cell phones -- that's bogus," said Tom Kelly, assistant executive director of the California Energy Commission.

The Chronicle's findings are based on data collected by the California Independent System Operator, a manager of the state's electricity grid. They show:

- Total electricity consumption in California increased only 4.75 percent in 2000 from 1999. In fact, the single greatest hour of electricity usage in 2000 was actually lower than any peak demand period in 1999 or 1998.
- Average peak demand -- the average of the highest hour of electricity usage for each day -- increased only 4.79 percent from 1999 to 2000.
- More than 30 days of critical power shortage warnings, so-called Stage 3 emergencies, and two days of blackouts this year occurred at times of moderate energy use -- levels often below those at which neither warnings nor blackouts have occurred in the past.

The findings appear to buttress suspicions that the "skyrocketing demand" explanation for rising prices is a cover for what is really happening -- that power companies have simply started charging more for an essential commodity, regardless of whether it is in short supply.

The industry-backed Edison Electric Institute said in a report that electricity demand grew by anywhere from 5 percent to 21 percent during the spring of 2000, compared with the same period a year earlier.

The presentation makes it appear that overall demand, not just the absolute peak, is growing by 21 percent. When the peak of each day is averaged and compared from year to year, May's figure was much lower: 12.79 percent.

Also, nowhere did Edison's report note that the peak hour of 2000, a load of 43,784 megawatts on Aug. 16, was actually lower than the peak hours of either of the previous two years.

Mike Florio, a consumer lawyer and board member of the ISO, said that even growth of less than 5 percent from 1999 to 2000 would seem overstated, since 1999 was a relatively mild weather year and 2000 was a much hotter one. "'Skyrocketing' demand is a myth," Florio said.

PUC decision on amount owed state due soon

How much of utility customers' monthly bills will be used to pay for California's multibillion-dollar entry into the power market?

That's the question as regulators set out to determine how to split ratepayers' bills between the state, which has been buying electricity at the rate of $45 million a day since late January, and the debt-laden utilities, which continue to deliver that power and collect customers' payments.

The resolution is crucial to Davis' complex plan to pull California out of its costly energy crisis.

When the Legislature put the state in the power-buying business, it needed to ensure reimbursement for its purchases. The result was the CPA, for CA Procurement Adjustment, essentially the portion of customers' bills left over after the utilities subtract their costs.

How the commission rules will be the main factor in determining if customers of the three big investor-owned utilities--PG&E, Edison and San Diego Gas & Electric--will face rate hikes above the 19% already set in motion. It also will have a direct bearing on the state's ability to sell the $10 billion in bonds it needs to finance its long-term power buys without having to commit taxpayer money.

The CPA needs to total at least $2.5 billion annually from utility customers. Treasurer Phil Angelides on Thursday estimated that the state needs $1.3 billion from CPA funds just to service the bonds.

PG&E and Edison both say they believe the utilities are entitled to be paid first out of ratepayer bills under AB 1X.

The Department of Water Resources, the agency empowered by the state to buy electricity for utility customers, would get whatever is left over after utility expenses are covered, the two companies say. If nothing is left, rates would be allowed to rise high enough to pay the water agency what it needs to cover its electricity expenses under an interim order issued Wednesday by the PUC.

In filings with the commission, PG&E, the state's largest electric utility, insists that once its obligations are subtracted the CPA would be virtually penniless. The most financially troubled of the utilities, PG&E is believed not to have ruled out filing for bankruptcy as a way out of its $8-billion debt.

Firm reluctant to ship natural gas via line

EL Paso Energy Co. bought a crude oil pipeline a year ago for $124 million with the intention of shipping more natural gas into California, El Paso said at the time.

The approximately 1,300-mile pipeline was formerly operated by Plains All American Co., carrying crude oil from the Golden State to Texas.

Bakersfield business interests say that converting the pipeline -- which is almost a yard wide -- to natural gas could go a long way toward lowering prices.

And since it is already in the ground, the pipeline wouldn't face lengthy delays and right-of-way issues.

But it doesn't appear the conversion will occur soon.

Though federal officials a month ago directed the big energy company to investigate the conversion as a way to increase gas deliveries into California, Houston-based El Paso has not yet committed to adding natural gas capacity distribution using the line, said spokesman Mel Scott. He said the acquisition was part of a plan to replace older compressors to move gas around their huge system.

El Paso and its affiliates brought in about one-third of the natural gas consumed in California in 1999, studies show.

The company says it is owed at least $100 million for both natural gas and electricity supplied to utilities in the state, PG&E and SCE, as well as the state Independent System Operator, which manages electrical distribution.

The company says it has greatly increased its deliveries of gas to California, though it has been hit by a profiteering lawsuit and has been subjected to state PUC criticism.

"We are working diligently to come up with solutions for California," said Scott..

The company, which has denied that it manipulated natural gas prices, already carries so much gas that when it announces repairs, prices can soar, experts said.

Prohibiting energy exports

To the concern of some of its neighbors, California appears to be getting more serious about the idea of banning its electricity generators from selling to other states on days when power supplies here are critically short. A draft proposal to prohibit such exports was circulated late last week by the California Independent System Operator, which oversees most of the state's power grid. Although officials there could not be reached for comment, the proposal said the agency plans to seek approval for the ban from the Federal Energy Regulatory Commission, which supervises power wholesalers. The proposal would require California generators "to make full capacity available'' to this state when electricity reserves dip below 7 percent, a condition that results in a Stage 1 emergency. Rolling blackouts can result after a Stage 3 emergency, when reserves fall below 1.5 percent.

Lockyer probe into collusion could be hard to prove

Attorney General Bill Lockyer is said to be looking at possible collusion in a $4 million probe of the state's energy markets. But many observers doubt anything will come of it, given past investigations by Lockyer into alleged oil-company price fixing that didn't result in any legal action.

"I wouldn't expect much," said Severin Borenstein, director of the University of California Energy Institute. "These cases are hard to make."